

Notes for Preparing a Statement of Distribution of Net Income

- 1) Determine your **net income** (Total Sales-Total Expenses)
- 2) You then need to divide out the salaries that each partner is entitled to (if applicable). The money for salaries comes from the net income. Record the amounts under each partner's name in the **salary allowance** row as well as the total salaries paid.
- 3) If the partners are entitled to interest on their capital accounts, include those amounts in the **interest allowance**. The money for this comes from net income as well. Record the amounts under each partner's name as well as the total interest distributed.
- 4) With the remaining net income, determine the ratio that the partners are sharing the income. In the example I have provided, the remaining net income is \$2,400. Each partner (2) shares the income equally (in this case, 50%). Record the amount under each partner as well as the total remaining income distributed.

Example: This example contains two partners (2). The steps are highlighted.

1

2

3

4

Sales				\$200,000
Net income				<u>\$ 22,000</u>
	<u>Division of Net Income</u>			
	Sara <u>King</u>	Ray <u>Lee</u>		<u>Total</u>
Salary allowance	\$ 8,400	\$6,000		\$14,400
Interest allowance				
Sara King (\$28,000 × 10%)	2,800			
Ray Lee (\$24,000 × 10%)		2,400		
Total interest				<u>5,200</u>
Total salaries and interest	<u>11,200</u>	<u>8,400</u>		<u>19,600</u>
Remaining income, \$2,400				
Sara King (\$2,400 × 50%)	1,200			
Ray Lee (\$2,400 × 50%)		1,200		
Total remainder				<u>2,400</u>
Total division	<u>\$12,400</u>	<u>\$9,600</u>		<u>\$22,000</u>